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E.O. 12958: N/A
TAGS: ECPS ECON EINV NI
SUBJECT: NIGERIA: GLOBACOM: SIX MONTHS ON

¶1. (U) Summary: Late February marked the six-month anniversary of Globacom's introduction of global system for mobile communications (GSM) services. The firm won mobile, fixed, and international gateway licenses in August 2002 (as Nigeria's second national operator) but experienced lengthy delays rolling out its mobile network. The firm is now expanding rapidly, and company executives say Globacom is on track to become Nigeria's leading mobile service provider. Outside observers are skeptical. End summary.

¶2. (U) Globacom's highly anticipated August 29 rollout attracted thousands of subscribers. Scores of people signed up in the company's first four or five hours of operation, and many of those who failed to acquire lines in Abuja snatched them up in Lagos a month later. Since then, the firm has expanded rapidly, signing up 600,000 subscribers in its first six months and adding another 100,000 in March. Service is available in 49 major cities and hundreds of smaller towns and villages, and company executives say they connect two or three towns every week, far exceeding their target of 36 major cities within a year of operation. Globacom's microwave radio transmission backbone spans thousands of kilometers in four of Nigeria's six geo-political zones, and executives say they plan to expand into the northwest and northeast later this year. According to one executive, the network is growing faster than any other in Africa.

¶3. (U) Globacom executives say the firm has spent an estimated $1.2 billion to construct its mobile and fixed networks and build an international gateway to connect GSM users to the outside world. Fixed lines run to a handful of corporate customers (mostly members of the firm's ownership group), and company executives expect to begin building the first phase of a 10,000-kilometer (6,250-mile) fiber optic backbone in the next few weeks. Once completed, the network will link Lagos, Ibadan, Port Harcourt, and Abuja, and as many as half a million customers will have access to fixed or fixed wireless communications services.

¶4. (U) Globacom executives say the fiber optic backbone will allow for cheaper, more frequent domestic and international connections. The backbone will turn the company into a "carriers' carrier" by allowing it to transmit calls for other operators and simultaneously allow it to distribute SAT-3 bandwidth to local Internet service providers. Globacom executives hope to do what Nigerian Telecommunications Limited (NITEL), the country's national operator, has not: take advantage of the high capacity underwater fiber optic cable (the South Atlantic Telecommunications Cable No. 3/West African Submarine Cable/South Africa Far East Cable, or SAT-3) linking Nigeria to the rest of the world. As Nigeria's second national operator, Globacom's access to the cable is guaranteed. The company is not yet connected, but executives say logistics and pricing negotiations with NITEL are nearly complete.

¶5. (U) Globacom has cut prices, introduced flexible payment plans, and offered regular promotions in an aggressive attempt to attract subscribers. The company's tariffs beat those of its competitors, and customers say they appreciate the choice between pre- and post-paid payment plans and per second or per minute billing. Globacom was the first of Nigeria's GSM providers to offer per second billing, and company executives believe the innovation plays a key role in attracting customers. They believe their promotions are equally important, pointing out that potential subscribers line up in droves to buy N6,000 ($45) pre-paid Classic lines. The rate beats the N6,480 ($49) offered by Globacom's major competitor, MTN Nigeria Communications Limited, and Globacom executives expect the trend to continue. The key to making money, they say, is in the amount of time customers spend on air, not in the amount of money they spend to subscribe.

¶6. (U) Globacom executives expect to undercut competitors in more ways than one. They say Globacom offers better service, and customer surveys support that assertion. At only 7 percent, Globacom's estimated call drop rate is significantly lower than those of its competitors: 70 percent of calls on MTN's network are dropped, and more than 40 percent of calls on Econet's network are dropped. Globacom executives hope to supplement the company's basic quality of service with a variety of value-added, pay per use features such as photo transmission and text to email services, something the firm's 2.5G network can support more easily than competitors' less sophisticated 2G networks. Several features are already included in Globacom's Magic Plus package. Company executives say they want to focus on introducing high quality, high technology services, something they see as a particularly effective means of attracting and retaining customers.

¶7. (U) Comment: Globacom executives expect to match their competitors' transmission capacity relatively quickly. The firm is expanding at an ever-increasing pace, and executives say they are on track to install 4 million lines by the end of 2005. If they do so, they will certainly make a name for themselves. The firm's biggest competitors, MTN and Econet, have just over 2 million and 1 million subscribers, respectively, and both have been plagued by over-subscription problems and customer complaints. Their inability to match Globacom's tariffs will likely lead to losses of market share, and if they lose existing customers while recruiting relatively fewer subscribers, they may well give up their dominance of the Nigerian mobile services sector.

¶8. (U) Comment continued: Not everyone believes that Globacom will have quite the success its executives expect. Its GSM network rollout was delayed for months, and like other firms, it has had to spend more than it expected to build its transmission backbone, supply the infrastructure that NITEL does not provide, and put generators and diesel storage tanks at individual cell sites and switching centers. Industry observers say the company has had trouble securing financing, and many doubt that it will be able to continue expanding at such a rapid pace. Insiders say the firm is also troubled by a heavy-handed management approach and a lack of direction. Chief Executive Mike Adenuga has a reputation for micromanaging, stifling ingenuity and innovation, and dismissing employees for questioning company doctrine. Globacom employees have expressed dissatisfaction with company management, and outside observers publicly wonder if the firm will be able to meet the requirements of its three licenses quickly enough to satisfy the average consumer. Given Globacom's internal weaknesses, meeting the Nigerian public's expectations of improved services and lower prices may be difficult. If it does succeed in meeting those expectations, however belatedly, Nigerian consumers and the broader Nigerian economy will reap rewards. End comment.

HINSON-JONES